

# **Victhom Human Bionics Inc.**

## **Consolidated Interim Financial Statements March 31, 2005 and 2004**

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## Victhom Human Bionics Inc. Consolidated Statement of Operations

Three-month periods ended on March 31  
(unaudited)

	<u>2005</u>	<u>2004</u>
	\$	\$
<b>Revenues</b>	<b>423,180</b>	902,394
<b>Cost of goods sold</b>	<b>416,202</b>	-
	<u>6,978</u>	<u>902,394</u>
<b>Expenses</b>		
Research and development	1,582,499	1,379,521
Tax credits and grants	<u>(356,015)</u>	<u>(373,669)</u>
	1,226,484	1,005,852
General and administrative	855,998	750,395
Financial	<u>65,071</u>	<u>37,305</u>
	<u>2,147,553</u>	<u>1,793,552</u>
<b>Net loss</b>	<b><u>2,140,575</u></b>	<b><u>891,158</u></b>
Weighted average number of common shares outstanding	<u>49,931,444</u>	<u>34,552,720</u>
Net basic and diluted loss per share	<u>0.043</u>	<u>0.026</u>

The accompanying notes are an integral part of the consolidated interim financial statements.

## Victhom Human Bionics Inc.

### Consolidated Statements of Contributed Surplus and Deficit

Three-month periods ended on March 31

(unaudited)

	<u>2005</u>	<u>2004</u>
	\$	\$
<b>CONTRIBUTED SURPLUS</b>		
Balance, beginning of period	2,254,780	800,000
Restatement in prior year related to the correction of an error (Note 15)	<u>-</u>	<u>(571,879)</u>
Restated balance, beginning of period	2,254,780	228,121
Warrants issued in private placement	3,563,045	1,102,500
Amount related to instalment on convertible debenture (Note 11)	54,993	-
Stock-based compensation	<u>209,163</u>	<u>205,035</u>
Balance, end of period	<u><u>6,081,981</u></u>	<u><u>1,535,656</u></u>
<b>DEFICIT</b>		
Balance, beginning of period	(13,502,488)	(6,348,543)
Restatement in prior year related to the correction of an error (Note 15)	<u>-</u>	<u>571,879</u>
Restated balance, beginning of period	(13,502,488)	(5,776,664)
Net loss	<u>(2,140,575)</u>	<u>(891,158)</u>
Balance, end of period	<u><u>(15,643,063)</u></u>	<u><u>(6,667,822)</u></u>

The accompanying notes are an integral part of the consolidated interim financial statements.

## Victhom Human Bionics Inc.

### Consolidated Statement of Cash Flows

Three-month periods ended on March 31  
(unaudited)

	<u>2005</u>	<u>2004</u>
	\$	\$
<b>OPERATING ACTIVITIES</b>		
Net loss	(2,140,575)	(891,158)
Non-cash items		
Stock-based compensation	209,163	280,000
Interest on convertible debentures (Note 11)	30,950	24,620
Amortization of property, plant and equipment	113,666	80,686
Amortization of deferred financing costs	11,807	-
Amortization of deferred investment tax credits	(1,897)	(2,138)
Changes in working capital items	1,428,161	(1,653,580)
Cash flows from operating activities	<u>(348,725)</u>	<u>(2,161,570)</u>
<b>INVESTING ACTIVITIES</b>		
Investments	47,000	-
Property, plant and equipment	(190,373)	(195,171)
Intangible assets	(113,434)	(22,491)
Cash flows from investing activities	<u>(256,807)</u>	<u>(217,662)</u>
<b>FINANCING ACTIVITIES</b>		
Demand loan	960,000	-
Long-term debt	-	66,057
Repayment of long-term debt	(1,066,278)	(69,136)
Deferred financing cost	(1,191,050)	-
Issue of convertible debentures	18,354,000	-
Repayment of convertible debentures	(500,000)	-
Issue of shares and warrants	-	10,636,923
Cash flows from financing activities	<u>16,556,672</u>	<u>10,633,844</u>
<b>Net increase in cash and cash equivalents</b>	<b>15,951,140</b>	<b>8,254,612</b>
Cash and cash equivalents, beginning of period	<u>2,840,071</u>	<u>2,049,472</u>
Cash and cash equivalents, end of period	<u>18,791,211</u>	<u>10,304,084</u>
Cash flows from non-monetary investing and financing activities are detailed as follows:		
Issue of shares related to:		
Contributed surplus related to warrants issued	-	1,102,500
Contributed surplus related to stock options exercised	-	(74,965)
Conversion of convertible debenture	132,683	-
Issue of convertible debenture related to:		
Contributed surplus related to warrants issued	3,563,045	-
Contributed surplus related to repayment of convertible debenture	54,993	-

The accompanying notes are an integral part of the consolidated interim financial statements.

## Victhom Human Bionics Inc. Consolidated Balance Sheets

as of March 31, 2005 and December 31, 2004

	(unaudited) March 31, 2005 \$	December 31, 2004 \$
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	18,791,211	2,840,071
Short-term investments (Note 7)	2,510,290	4,010,290
Accounts receivable (Note 8)	2,477,819	2,004,458
Inventories	338,274	258,219
Prepaid expenses	40,128	83,743
	<u>24,157,722</u>	<u>9,196,781</u>
Investments, at cost	21,631	68,666
Property, plant and equipment	2,254,159	2,177,452
Intangible assets (Note 9)	8,743,056	8,629,622
Deferred financing costs	1,481,106	8,438
	<u>36,657,674</u>	<u>20,080,959</u>
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable and accrued liabilities	1,862,257	1,188,926
Deferred revenue	265,629	501,033
Demand loan, secured by investment tax credits receivable, prime rate plus 1.5% (5.75%), payable in one instalment on maturity in November 2005	960,000	-
Instalments on long-term debt (Note 10)	259,018	1,261,518
Instalments on liability component of convertible debentures (Note 11)	319,504	919,482
	<u>3,666,408</u>	<u>3,870,959</u>
Deferred investment tax credits	34,449	36,346
Long-term debt (Note 10)	121,007	184,785
Liability component of convertible debentures (Note 11)	13,544,596	-
	<u>17,366,460</u>	<u>4,092,089</u>
<b>SHAREHOLDERS' EQUITY</b>		
Equity component of convertible debentures (Note 11)	1,587,535	104,500
Capital stock (Note 12)	27,264,761	27,132,078
Contributed surplus	6,081,981	2,254,780
Deficit	(15,643,063)	(13,502,488)
	<u>19,291,214</u>	<u>15,988,870</u>
	<u>36,657,674</u>	<u>20,080,959</u>

The accompanying notes are an integral part of the consolidated interim financial statements.

On behalf of the Board,

/s/ Daniel Johnson  
Chairman

/s/ Nitin Kaushal  
Director

## **Victhom Human Bionics Inc.**

### **Notes to Consolidated Financial Statements**

As of March 31, 2005 and December 31, 2004

(unaudited)

#### **1 - GOVERNING STATUTES AND NATURE OF OPERATIONS**

The Company, incorporated under the Canada Business Corporations Act, operates a laboratory that conducts human bionics research for the design and development of prosthetic products, neuro-electronic devices, biomaterials and entirely biocompatible active materials, to improve the quality of life of people suffering from physical dysfunctions.

The Company is considered to be in the start-up stage and will continue to be a start-up until it earns substantial revenues. The Company expects to incur additional capital expenditures to complete the development and marketing of its products. Its ability to generate future revenues and cash flows from its operating activities depends on several factors, including its ability to secure additional financing and to have its products accepted on the market.

#### **2 - FINANCIAL STATEMENTS PRESENTATION**

The unaudited interim consolidated financial statements have been prepared by the Company in accordance with Canadian generally accepted accounting principles. The financial information was prepared in accordance with the same accounting policies and methods as the audited annual consolidated financial statements for the year ended on December 31, 2004, but do not include all the information required in complete consolidated financial statements. The unaudited interim consolidated financial statements should be read in conjunction with the audited annual consolidated financial statements and notes thereto in the Company's 2004 Annual Report. The results of operations for the interim periods presented do not necessarily reflect results for the full year.

#### **3 - SIGNIFICANT ACCOUNTING POLICIES**

##### **Basis of consolidation**

The consolidated financial statements included the accounts of the Company and its wholly owned subsidiary company. All significant intercompany balances and transactions have been eliminated on consolidation.

##### **Cash and cash equivalents**

The Company's policy is to present cash and short-term investments having a term of three months or less from the acquisition date with cash and cash equivalents.

##### **Inventories**

The raw materials are valued at the lower of average cost and current replacement cost. The work-in-process and the finished goods are valued at the lower of average cost and net realizable value. Their cost includes material, labor and manufacturing overhead.

##### **Deferred financing costs**

Deferred financing costs relating to the issue of convertible debentures and other credit facilities are amortized on a straight-line basis over the same terms. Should the debentures be converted, or the credit facilities reimbursed, the unamortized balance of financing costs will be transferred respectively to capital-stock or expenses.

##### **Revenue recognition**

The Company adopted the recommendations of the Emerging Issues Task Force in consensuses, EIC-141, Revenue Recognition and EIC-142, Revenue Arrangements with Multiple Deliverables. These recommendations address not only when and how an arrangement involving multiple deliverables should be divided into separate elements of accounting, but also how the arrangement's consideration should be allocated among separate units. Adoption of these recommendations did not affect the Company's financial statements.

## Victhom Human Bionics Inc.

### Notes to Consolidated Financial Statements

As of March 31, 2005 and December 31, 2004

(unaudited)

#### 3 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

By virtue of a marketing agreement signed during fiscal year 2003, the Company must attain development objectives for its products based on a pre-determined timetable to the benefit of the third party. Revenue was recognized in the statement of operations. The agreement does not indicate any terms of repayment in the event that the product is not marketed.

The revenue from research and development service contracts and/or products are recognized when they are delivered and accepted by the client.

#### 4 - BUSINESS ACQUISITION

On July 26, 2004, the Company acquired all outstanding shares of Vancouver-based Neurostream Technologies Inc. (Neurostream), a medical device company specialized in medical interface systems. This transaction was carried out through the issuance of 4,539,241 treasury common shares at a price of \$1.58 per share, which was the market value at the transaction date, for a total value of \$7,172,000. In addition, the Company issued 107,933 stock options and 370 886 warrants in exchange for the stock options and warrants held by Neurostream's optionees and warrant holders. The Company has identified estimated transaction costs at \$758,211 bringing the total transaction value to \$8,100,534. This transaction has been accounted for using the purchase method.

Acquisition price:

Issuance of common shares	\$ 7,172,000
Issuance of warrants (1)	117,570
Issuance of stock options (2)	52,753
Estimated transaction costs	758,211
	<u>\$ 8,100,534</u>

The agreement between the Company and Neurostream includes a purchase price adjustment clause which expires on January 26, 2006. This adjustment would result in a decrease in the issuance of common shares. This would decrease the capital stock and the acquired technology value. It is not possible at this time for the Company to estimate whether there will be a purchase price adjustment and, if so, the amount thereof. The acquisition of Neurostream was accounted for in the consolidated results starting on July 26, 2004.

The following table summarizes the estimated fair value of the assets acquired and liabilities assumed:

Cash and cash equivalents	\$ 924,745
Accounts receivable	408,363
Prepaid expenses	32,795
Property, plant and equipment	32,223
Accounts payable and long-term debt	(447,231)
Acquired technology (Note 9)	7,149,621
	<u>\$ 8,100,534</u>

- (1) The fair value of each of the warrants granted was estimated on the grant date using the Black-Scholes option pricing model on the basis of the following assumptions: expected volatility of 60%, risk free interest rate of 3.2%, no expected dividends and expected life of 18 months.
- (2) The fair value of each of the stock-options granted was estimated on the grant date using the Black-Scholes option pricing model on the basis of the following assumptions: expected volatility of 60%, risk free interest rate of 2.6% and 3.2%, no expected dividends and expected life of 3 and 36 months.

## Victhom Human Bionics Inc.

### Notes to Consolidated Financial Statements

As of March 31, 2005 and December 31, 2004

(unaudited)

#### 5 - INFORMATION INCLUDED IN THE STATEMENT OF OPERATIONS

	March 31, 2005	March 31, 2004
	\$	\$
Government assistance	(12,721)	-
Interest on investments	(45,629)	(8,453)
Research and development expenses	1,513,155	1,328,424
Research and development tax credits	(343,294)	(373,669)
Amortization of deferred investment tax credits	(1,897)	(2,138)
Amortization of property, plant and equipment	113,666	80,686
Amortization of deferred financing costs	11,807	-
Interest on long-term debt and convertible debentures	133,085	71,751
Exchange loss	(32,480)	(27,310)
Stock-based compensation (Note 15)	209,163	280,000

#### 6 - INCOME TAXES

The future income tax assets and liabilities results from differences between the carrying amount and the tax basis of the following:

	March 31, 2005	December 31, 2004
	\$	\$
Future income tax assets		
Non-capital losses	2,300,000	1,977,000
Research and development expenses	2,800,000	2,497,000
	<u>5,100,000</u>	<u>4,474,000</u>
Future income tax liabilities		
Property, plant and equipment	363,000	368,000
Other assets	250,000	197,000
	<u>613,000</u>	<u>565,000</u>
	4,487,000	3,909,000
Valuation allowance	(4,487,000)	(3,909,000)
Net future income taxes	<u>-</u>	<u>-</u>

The future income tax asset resulting from loss carry-forwards is not recorded in the financial statements. These losses and deductible temporary differences, which are available to reduce income taxes in future years as detailed follows:

	Federal	Provincial
	\$	\$
Amount of losses for tax purposes carried forward:		
2006	-	3,000
2007	56,000	56,000
2008	397,000	400,000
2009	1,185,000	1,184,000
2010	1,001,000	946,000
2014	3,989,000	3,150,000
2015	1,109,000	1,109,000
Eligible research and development expenses to be deferred over an undetermined period	8,019,000	11,782,000
Amount of temporary variances to be deferred over an undetermined period	1,976,000	1,976,000
	<u>17,732,000</u>	<u>20,606,000</u>

In addition, the Company has investment tax credits amounting to approximately \$104,000, which are available until 2012, \$782,000 until 2013, \$975,000 until 2014 and \$245,000 until 2005.

## Victhom Human Bionics Inc.

### Notes to Consolidated Financial Statements

As of March 31, 2005 and December 31, 2004

(unaudited)

#### 7 - SHORT-TERM INVESTMENTS

	March 31, 2005	December 31, 2004
	\$	\$
Bond, bearing interest at 2.21% annually, maturing in November 2006 (1)	1,499,475	1,499,475
Bond, bearing interest at 2.34% annually, matured in March 2005	-	1,500,000
Long-term investments maturing within one year	1,010,815	1,010,815
	<u>2,510,290</u>	<u>4,010,290</u>

(1) The Company intends to dispose of this bond before the end of this fiscal year.

#### 8 - ACCOUNTS RECEIVABLE

	March 31, 2005	December 31, 2004
	\$	\$
Investment tax credits receivable (1)	1,864,035	1,520,741
Sales taxes receivable	346,845	224,140
R&D services contract and sales receivable	238,702	47,173
Advance to a company related to an officer, bearing interest at 10% annually	-	30,000
Others	28,237	182,404
	<u>2,477,819</u>	<u>2,004,458</u>

(1) The investment tax credits receivable recorded by the Company, for the period ended on March 31, 2005 and the year ended on December 31, 2004, must be examined and approved by the tax authorities. The amounts granted may differ from the amounts recorded, accordingly.

#### 9 - INTANGIBLE ASSETS

	March 31, 2005	December 31, 2004
	\$	\$
Patents	414,201	308,975
Commercial License agreement (1)	1,179,234	1,171,026
Acquired technology (Note 4)	7,149,621	7,149,621
	<u>8,743,056</u>	<u>8,629,622</u>

(1) On May 11, 2004, the Company entered into a commercial licensing agreement by virtue of which Victhom holds the rights to use a neuroelectronic implant.

## Victhom Human Bionics Inc.

### Notes to Consolidated Financial Statements

As of March 31, 2005 and December 31, 2004

(unaudited)

#### 10 - LONG-TERM DEBT

	<b>March 31, 2005</b>	December 31, 2004
	<u>\$</u>	<u>\$</u>
Obligations under capital leases, at various rates from 9.11% to 20.03%, payable in monthly instalments, maturing at different dates until December 2008	<b>117,525</b>	131,303
Loan, secured by term deposit, 12% payable monthly, capital payable in one instalment on maturity in June 2005	-	1,000,000
Term loan, prime rate plus 2.75% (7% in 2005 and 2004), payable in monthly instalments of \$8,333 plus interest, maturing in June 2006 (a)	<b>125,000</b>	150,000
Term loan, prime rate plus 2% (6.25% in 2005 and 2004), payable in monthly instalments of \$9,167 plus interest, maturing in June 2006 (a)	<u><b>137,500</b></u>	<u>165,000</u>
	<b>380,025</b>	1,446,303
Instalments due within one year	<b>259,018</b>	1,261,518
	<u><b>121,007</b></u>	<u>184,785</u>

- (a) Under the terms and conditions of the term loans, the Company has credit facilities totalling \$525,000. Term loans are secured by a first call on the universality of the Company's property. The loans are subordinated to full payment of a convertible debenture secured by research and development tax credits.

Pursuant to the terms and conditions of the Company's loan agreements, Victhom is also subject to certain debt covenants with regards to maintaining financial ratios. As at March 31, 2005, all debt covenants are respected.

## Victhom Human Bionics Inc.

### Notes to Consolidated Financial Statements

As of March 31, 2005 and December 31, 2004

(unaudited)

#### 11 - CONVERTIBLE DEBENTURES

The following table illustrates variations in the periods:

	Liability component	Equity component
	\$	\$
Balance as at March 31, 2004 and December 31, 2003 (a)	899,572	110,000
Convertible debenture converted into common shares	(47,663)	(5,500)
Increase in expected interest on convertible debenture	67,573	-
Balance as at December 31, 2004	<u>919,482</u>	<u>104,500</u>
Instalment on convertible debentures	(500,000)	(54,993)
Convertible debenture converted into common shares	(118,931)	(13,752)
Issue of convertible debentures (b)	13,532,599	1,551,780
Increase in expected interest on convertible debentures	30,950	-
	<u>13,864,100</u>	<u>1,587,535</u>
Instalments due within one year	<u>319,504</u>	<u>-</u>
<b>Balance as at March 31, 2005</b>	<b><u>13,544,596</u></b>	<b><u>1,587,535</u></b>

- (a) Debenture issued to Global (GMPC) Holdings Inc. having a par value of \$1,000,000 secured by the investment tax credits receivable, bearing interest at the rate of 12% (effective rate of 18.7%) as at December 19, 2003, maturing on December 17, 2005.
- (b) Debenture issued having a par value of \$18,354,000, unsecured, bearing interest at the rate of 7% (effective rate of 14.3%) as at March 22, 2005, maturing on March 22, 2010. The liability and the equity components represent \$15,084,379. The remaining amount of \$3,269,621 is the fair value of the warrants granted, recorded as contributed surplus.

The liability component of the convertible debentures is the discounted value, at the date of issue, of the cash payments of interest and principal due under the terms of the convertible debentures, discounted at the rate of interest that would apply to debt security without a conversion option, with similar maturity and risk. The equity component represents the value attributed to the difference between the amount issued and the liability component.

## Victhom Human Bionics Inc.

### Notes to Consolidated Financial Statements

As of March 31, 2005 and December 31, 2004  
(unaudited)

#### 12 - CAPITAL STOCK

##### Authorized

Unlimited number of common shares without par value, voting and participating

##### Issued and Fully Paid

The following table indicates changes in the Company's capital stock during the periods:

	<u>Number</u>	<u>Amount</u>
		\$
Balance as at December 31, 2003	33,224,356	7,654,822
Private placement, less expenses	7,910,787	8,568,708
Stock options exercised	287,667	221,470
Warrants exercised	634,233	510,977
Balance as at March 31, 2004	<u>42,057,043</u>	<u>16,955,977</u>
Shares issued related to, less expenses		
commercial license agreement	632,912	997,800
business acquisition (Note 4)	4,539,241	7,162,400
conversion of convertible debenture	40,000	53,163
Stock options exercised	105,281	62,739
Warrants exercised	2,476,967	1,899,999
Balance as at December 31, 2004	<u>49,851,444</u>	<u>27,132,078</u>
Shares issued related to conversion of convertible debenture	100,000	132,683
<b>Balance as at March 31, 2005</b>	<b><u>49,951,444</u></b>	<b><u>27,264,761</u></b>

##### Warrants

As part of its financing operations, the Company issued warrants to investors entitling them with the right to purchase shares at a predetermined price. Each warrant issued can be used to purchase one common share of the Company.

At the time of issue, the fair value of the warrants issued, as part of the financing, is recognized as a decrease in capital stock or is reported as deferred financing costs. The consideration is recognized as contributed surplus in the balance sheet.

The fair value of each warrant granted was estimated at the grant date using the Black-Scholes option pricing model, based on the following assumptions: expected volatility of 60%, risk-free interest rate of 2.25% to 3.9%, no expected dividends and expected life of 18 months to 5 years. The weighted average fair value of the warrants granted during the period is \$0.30 and \$0.48 respectively for the expected life of 2 and 5 years.

## Victhom Human Bionics Inc.

### Notes to Consolidated Financial Statements

As of March 31, 2005 and December 31, 2004  
(unaudited)

#### 12 - CAPITAL STOCK (Continued)

Outstanding warrants at the end of the periods as well as the changes during the periods are summarized in the table below:

	Number	Weighted average exercise price 2005 \$
Outstanding, as at December 31, 2003	4,668,978	0.96
Granted	4,192,723	1.85
Exercised	(634,233)	0.80
Outstanding, as at March 31, 2004	<u>8,227,468</u>	<u>1.43</u>
Granted	370,886	2.00
Exercised	(2,476,967)	1.77
Cancelled	(168,889)	1.25
Outstanding, as at December 31, 2004	<u>5,952,498</u>	<u>1.74</u>
Granted	7,613,530	1.58
Cancelled	(1,388,889)	1.35
<b>Outstanding, as at March 31, 2005</b>	<b><u>12,177,139</u></b>	<b><u>1.69</u></b>

As at March 31, 2005, the following warrants were granted:

Range of exercise prices	Number of warrants	Weighted average remaining contractual life (in years)	Weighted average exercise price \$
\$1.35 to \$1.56	543,834	9.96	1.35
\$1.57 to \$1.78	7,069,696	9.96	1.60
\$1.79 to \$2.00	4,563,609	0.78	1.86
<u>\$1.35 to \$2.00</u>	<u>12,177,139</u>	<u>6.52</u>	<u>1.69</u>

#### 13 - RELATED PARTY TRANSACTIONS

The Company carried out the following related party transactions:

	March 31, 2005 \$	March 31, 2004 \$
Expenses		
Professional fees paid under agreements concluded with entities controlled by officers	<u>-</u>	<u>50,800</u>

These transactions were accounted for at the exchange amount, which is the consideration established and agreed upon by the parties.

## Victhom Human Bionics Inc.

### Notes to Consolidated Financial Statements

As of March 31, 2005 and December 31, 2004  
(unaudited)

#### 14 - COMMITMENTS

The Company has entered into a lease, expiring on September 30, 2009, which calls for payment of \$1,091,961 for the rental of premises. Minimum payments during the next years amount to \$181,994 in 2005, \$242,658 in 2006, 2007 and 2008, and \$181,994 in 2009.

The Company has entered into agreements with different entities to participate in the following projects:

	Agreements	Entered into March 31, 2005	Entered into December 31, 2004
	\$	\$	\$
<b>«Corporation de l'École Polytechnique de Montréal»</b>			
Research and development of a neuroelectrical measuring system for an anthropomorphic limb, ending in August 2005	949,000	67,000	748,000
Design, prototyping, test and validation of the "Mixture" Urinary stimulator, ended in March 2005	169,744	99,744	70,000
Development of an "IC Digital interface" for the control of the nervous stimulation system, ending in February 2006	153,361	-	-
RFIC techniques for efficient power transfer dedicated to electronic implants, ending in October 2006	60,000	-	20,000
<b>«Université de Sherbrooke»</b>			
Treatment and analysis of signals from the multisensor to measure the human body mobility, ending in May 2006	44,200	5,894	14,730
	<u>1,376,305</u>	<u>172,638</u>	<u>852,730</u>

Minimum payments under these agreements during the next years amount to \$288,426 in 2005 and \$62,461 in 2006.

By virtue of the commercial license agreement signed on May 11, 2004, the Company has begun to pay, since January 2005, annual royalties on implant net sales. Minimum royalties requirement is of \$25,000 a year. In addition, based on attainable performance objectives, the Company will pay \$125,000 in June 2007 and October 2008, and \$250,000 in November 2009. This agreement will expire, on a per country basis, on the date patents expire or by mutual agreement between the parties in accordance with the terms applicable.

## Victhom Human Bionics Inc.

### Notes to Consolidated Financial Statements

As of March 31, 2005 and December 31, 2004

(unaudited)

#### 15 - STOCK-BASED COMPENSATION

The Company has established a stock-option plan whereby the Board of Directors may grant stock options to directors, executive officers, key employees and consultants providing services to the Company. The Board of Directors determines, at its discretion, the vesting terms, if applicable, the expiry date of options and the number of options to be granted. The exercise price of stock options is based on the market value of Victhom common shares at the market close on the date they are granted.

The fair value of the stock options granted was estimated at the grant date using the Black-Scholes option pricing model, based on the following assumptions: expected volatility of 60%, risk-free interest rate of 2.6% to 4.79%, and no expected dividends and expected life of 3 months to 6 years. The weighted average fair value of the stock options granted during the period is \$0.69.

The Company's stock-option plan at the period ends as well as the changes during the periods are summarized in the table below:

	Number	Weighted average exercise price
		2005
		\$
Outstanding, as at December 31, 2003	3,266,506	0.63
Exercised	(287,667)	0.51
Cancelled	(32,694)	1.07
Outstanding, as at March 31, 2004	<u>2,946,145</u>	<u>0.64</u>
Granted	1,405,433	1.57
Exercised	(105,281)	0.76
Cancelled	(341,619)	1.15
Outstanding, as at December 31, 2004	<u>3,904,678</u>	<u>0.93</u>
Granted	945,000	1.15
Cancelled	(29,162)	0.92
<b>Outstanding, as at March 31, 2005</b>	<b><u>4,820,516</u></b>	<b><u>0.97</u></b>
Exercisable, as at March 31, 2005 (1,246,637 at \$0.47 on December 31, 2004)	<u>2,549,357</u>	<u>0.77</u>

As at March 31, 2005, the following stock options were granted:

Range of exercise prices	Number of outstanding options	Weighted average remaining contractual life (in years)	Weighted average exercise price
			\$
\$0.15 to \$0.30	350,000	2.04	0.15
\$0.47 to \$0.71	1,697,259	2.48	0.53
\$0.72 to \$1.09	250,163	3.12	0.88
\$1.10 to \$1.65	2,523,094	7.02	1.39
<u>\$0.15 to \$1.65</u>	<u>4,820,516</u>	<u>4.86</u>	<u>0.97</u>

## Victhom Human Bionics Inc.

### Notes to Consolidated Financial Statements

As of March 31, 2005 and December 31, 2004  
(unaudited)

#### 15 - STOCK-BASED COMPENSATION (Continued)

As at March 31, 2005, the following stock options were exercisable:

Range of exercise prices	Number of exercisable options	Weighted average exercise price \$
\$0.15 to \$0.30	341,389	0.15
\$0.47 to \$0.71	1,320,757	0.53
\$0.72 to \$1.09	167,868	0.88
\$1.10 to \$1.65	719,343	1.49
<u>\$0.15 to \$1.65</u>	<u>2,549,357</u>	<u>0.77</u>

#### Correction of an error in prior financial statements

In the preparation of the financial statements, the Company has to estimate the fair value of the stock options granted. The Company has reviewed the fair value of the stock options granted in 2003, which was based on an external consultant report. The Company noticed an error in their estimation of the volatility used in the Black-Scholes option pricing model. The volatility used was based on theoretical value of 105%. The volatility should have been lower, i.e. 60%. The Company decided to restate the 2003 financial statements as indicated below:

	2004 \$	2003 \$
Balance Sheets		
Contributed surplus	(571,879)	(571,879)
Deficit	(571,879)	(571,879)
Statement of Operations		
Net loss	-	(571,879)

#### 16 - REVENUE

Revenue is derived from one European client under a marketing agreement concluded during 2003, sale of products and research and development service contracts.

#### 17 - COMPARATIVE FIGURES

Some comparative figures have been reclassified to conform with the presentation adopted in the current period.